

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Village of Laurium	County Houghton
Audit Date 2/28/05	Opinion Date 7/20/05	Date Accountant Report Submitted to State: 8/12/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Jackie A. Aalto, CPA			
Street Address 116 Fifth Street	City Calumet	State MI	ZIP 49913
Accountant Signature <i>Jackie A. Aalto</i>		Date 8/12/05	

VILLAGE OF LAURIUM, MICHIGAN
Houghton County

FINANCIAL REPORT

Year ended February 28, 2005

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INDEPENDENT AUDITOR'S REPORT

To the Village Council
Village of Laurium, Michigan

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Laurium, Michigan as of and for the year ended February 28, 2005, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Laurium, Michigan's management. My responsibility is to express opinions on these financial statements based on my audit.

Except as discussed in the following paragraph, I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

The procedures used to collect cash receipts from sales and admissions at fund raising events and the lack of evidential matter with respect to those cash receipts, do not permit me to apply auditing procedures to satisfy myself as to the reasonableness of such cash receipts stated in the accompanying financial statements.

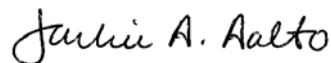
In my opinion, except for the effects on the financial statements of such adjustments, if any, as might have been determined to be necessary had I been able to examine sufficient evidence regarding cash receipts described in paragraph three above, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Village of Laurium, Michigan as of February 28, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Village has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended and interpreted, as of March 1, 2004.

In accordance with *Government Auditing Standards*, I have also issued my report dated July 20, 2005, on my consideration of the Village of Laurium, Michigan's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

The management's discussion and analysis and budgetary comparison information on pages 5 through 9 and 33 through 37, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Laurium, Michigan's basic financial statements. The accompanying other supplementary information as identified in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. This other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Jackie A. Aalto, CPA

Calumet, Michigan
July 20, 2005

VILLAGE OF LAURIUM, MICHIGAN

Management's Discussion and Analysis

The management of the Village of Laurium, Michigan (the "Village") offers this narrative overview and analysis of the financial activities of the Village for the fiscal year ended February 28, 2005. This management's discussion and analysis is intended to assist the reader in focusing on significant financial issues and to provide an overview of the Village's financial activity. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements. Management provides three main topics for discussion and analysis. They are Financial Highlights, Overview of the Financial Statements, and Government-wide Financial Analysis.

Financial Highlights

- The assets of the Village exceeded its liabilities at the close of this fiscal year by \$2,442,699 (shown as net assets). Governmental activities represented \$1,742,281 of this total, while business-type activities accounted for \$700,418 of this total.
- The Village purchased two new police vehicles at a total cost of \$63,574. One vehicle was financed internally and the other was financed with a Rural Development loan.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Village's basic financial statements. The Village's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Village's financial position. This report includes government-wide statements as required by GASB Statement Number 34. The *statement of net assets* and the *statement of activities* are two financial statements that report information about the Village as a whole, and provide measurements of long-term trends. They are presented using a method of accounting that is similar to a private-sector business.

The *statement of net assets* presents information on all of the Village's assets and liabilities, with the difference between the two reported as the net assets of the Village. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Village is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Village that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other

functions that are intended to recover all or most of their costs through user fees and charges (*business – type activities*). The governmental activities of the Village include general government, public safety, highways and streets, public works and recreation. Business-type activities of the Village include sanitation, water, and recreation programs.

The government-wide financial statements can be found on pages 10 and 11 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Each fund is operated similar to a completely separate entity, with its own set of balancing accounts. The Village uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. There are three basic types of funds: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide statement, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

This approach is known as the modified accrual system. Under this reporting system, capital items, debt payments and certain other items are treated differently than on the government-wide statements. These items are recorded in the governmental fund statements on the Statement of Revenues, Expenditures and Changes in Fund Balances as an expenditure. No depreciation is recorded on capital items. The balance sheet for governmental funds does not include any capital items or long-term debt. Governmental funds for the Village include the General Fund, Major Street Fund, Local Street Fund, Municipal Street Fund, Public Ordinance #114 Fund, Public Improvement Fund, Fire Truck Fund, Volunteer Firemen Fund, Fire/Police Vehicle Purchase Fund and Debt Service Fund.

The Village adopts an annual appropriated budget for all of its funds.

The basic governmental fund financial statements can be found on pages 12 and 13 of this report.

Proprietary funds. Proprietary funds account for services for which the Village charges its customers for the services they are provided. These charges can be to external customers or other agencies within the Village. There are two types of proprietary funds:

- *Enterprise funds* are used to report business-like activities of the Village. These activities intend to recover the full cost of the services through the fee charged to the customers. The Village's enterprise funds are Multi-Recreation, Sanitation and Water.
- *Internal Service funds* are the second type of proprietary funds. These funds provide services to other departments within the Village. This fund allows the cost allocation of centralized services such as vehicles and equipment. The Village does not utilize an internal service fund.

The proprietary fund financial statements can be found on pages 15 - 17.

Fiduciary funds. Fiduciary funds account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, and/or other governmental units. Fiduciary funds focus on net assets and changes to net assets. There are four types of fiduciary funds: pension trust fund, investment trust fund, private-purpose trust fund, and agency fund. The Village has no fiduciary fund.

Notes to the financial statements. The notes to the basic financial statements provide additional information that is essential to a complete understanding of the information provided in both the government-wide and the fund financial statements. The notes can be found on page 18-31 of this report.

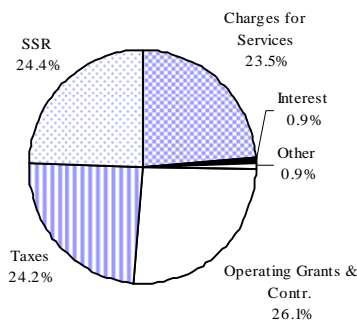
Other information. In addition to the basic financial statements and accompanying notes, this report further presents *required supplementary information* (RSI) that explains and supports the information presented in the financial statements. This information can be found on pages 33 - 37.

Government-wide Financial Analysis

Total net assets of the Village are \$2,442,699. Total net assets increased by \$ 115,871 for the fiscal year ended February 28, 2005. Governmental activities accounted for \$94,702 of the increase and business-type activities accounted for \$21,169.

The following two charts highlight the Village of Laurium governmental activities by revenue and expenses. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented. The data referenced is found on page 11.

Revenues-Governmental Activities

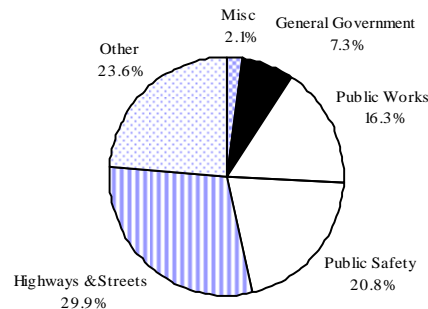


The most significant portion of the revenue for all governmental activities of the Village comes from Operating Grants & Contributions. This figure includes Michigan Transportation Fund (Act 51) money for the Major and Local Street Funds.

Property taxes are a major source of the revenue. The Village's operating millage was 19.4778 which includes .9436 mills for extra snow removal and 1.0000 mills for the purchase of fire apparatus. They are extra voted millages. The Village's charter allows the Village to levy up to 12.5 mills for general operations, 5.0 mills for streets, and 3.0 mills for garbage. Due to State of Michigan statutes, the Village is at its maximum millage tax levy, and is unable to increase the millage without the approval of the voters.

State shared revenue is collected by the State of Michigan and distributed to local governments by formula allocation of portions of the State sales tax. During the year, the amount of state shared revenue received by the Village trended downward, representing declining sales tax collections and discretionary cuts by the State in revenue sharing payments.

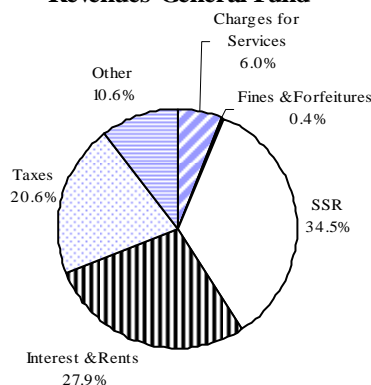
Expenditures-Governmental Activities



The Village of Laurium's governmental activities are dominated by Highways & Streets. This is due to heavy snow removal activities. The Public Works category includes maintenance support activities for snow removal operations. The Other category covers employee benefits. The Public Safety portion includes police and fire department operations and the General Government percentage represents village hall activities.

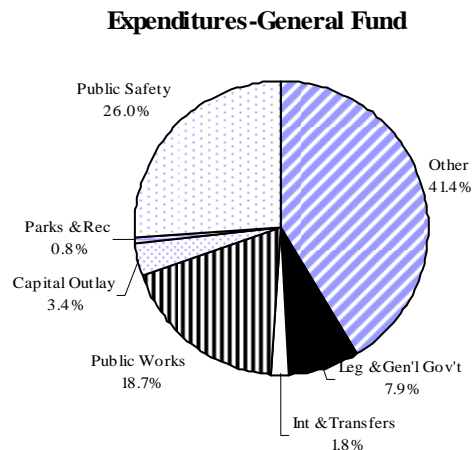
The General Fund is the largest governmental activity fund and represents the most significant portion of the Village's operations. The following two charts show General Fund activity only and the data referenced can be found on page 13.

Revenues-General Fund



The greatest portion of General Fund revenues comes from state shared revenues. Interest & Rents is the second largest portion with the vast majority being generated from equipment rentals charged to the

Major and Local Street Funds. The Village taxes are the third most significant General Fund revenue source.



The Village's General Fund expenses are represented by the following categories in order of significance: Other, Public Safety, Public Works, Legislative & General Government, Capital Outlay, Interest & Transfers and Parks & Recreation.

The Village's proprietary funds are found on pages 15 - 17. The Multi-Recreation Fund accounts for the ice arena, Daniell Park concert series, baseball, and other activities where a fee is charged or could be charged to offset recreation program expenses. The Sanitation Fund accounts for garbage pickup, spring and fall cleanup, brush, and Christmas tree disposal. The Village of Laurium is noted for its high level of garbage services. The Water Fund accounts for water main and fire hydrant operations. To date, the Village has completed two major water projects and is currently anticipating funding the critical north-end water project during the next fiscal year.

Contacting the Village of Laurium, Michigan's Management

This financial report is intended to provide our taxpayers, creditors, and customers with a general overview of the Village's finances and to demonstrate the Village's accountability for the revenues it receives. If you have any questions regarding this report or need additional financial information regarding the money entrusted to the Village, as always, please feel free to contact us at: Village of Laurium, P.O. Box 627, Laurium, MI 49913 or contact the Chief Financial Officer at (906) 337-1600.

VILLAGE OF LAURIUM, MICHIGAN

Statement of Net Assets

February 28, 2005

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Total
Assets			
Cash	\$ 1,030,753	\$ 264,475	\$ 1,295,228
Receivables, net	280,909	37,692	318,601
Internal balances	2,078	(2,078)	
Prepaid expense	9,055		9,055
Inventory	3,676	1,015	4,691
Deferred charges	4,000		4,000
Capital assets, net	<u>730,295</u>	<u>424,506</u>	<u>1,154,801</u>
Total Assets	<u>2,060,766</u>	<u>725,610</u>	<u>2,786,376</u>
Liabilities			
Accounts payable	17,736	9,503	27,239
Accrued liabilities	34,197	2,244	36,441
Deferred revenues		13,445	13,445
Noncurrent Liabilities:			
Due within one year	22,000		22,000
Due in more than one year	<u>244,552</u>		<u>244,552</u>
Total Liabilities	<u>318,485</u>	<u>25,192</u>	<u>343,677</u>
Net Assets			
Invested in capital assets, net of related debt	692,295	424,506	1,116,801
Restricted for:			
Streets & highways	450,632		450,632
Loans & contingencies	323,824		323,824
Debt service	206		206
Unrestricted	<u>275,324</u>	<u>275,912</u>	<u>551,236</u>
Total Net Assets	<u>\$ 1,742,281</u>	<u>\$ 700,418</u>	<u>\$ 2,442,699</u>

The notes to the financial statements are an integral part of this statement.

VILLAGE OF LAURIUM, MICHIGAN

Statement of Activities

Year Ended February 28, 2005

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for	Operating	Capital	Primary Government		
		Services	Grants and	Grants and	Governmental	Business-Type	Total
			Contributions	Contributions	Activities	Activities	
Primary Government							
Governmental Activities							
Legislative	\$ 6,295	\$	\$	\$	\$ (6,295)	\$	\$ (6,295)
General government	84,884	6,383			(78,501)		(78,501)
Public safety	241,629	3,270			(238,359)		(238,359)
Public works	189,948	70,341			(119,607)		(119,607)
Parks & recreation	7,445				(7,445)		(7,445)
Highways & streets	347,996	216,030	328,123		196,157		196,157
Interest on long-term debt	10,908				(10,908)		(10,908)
Other	275,089				(275,089)		(275,089)
Total Governmental Activities	1,164,194	296,024	328,123		(540,047)		(540,047)
Business-Type Activities							
Multi-Recreation	52,780	34,348	2,555			(15,877)	(15,877)
Sanitation	149,056	99,874				(49,182)	(49,182)
Water	17,974	43,480				25,506	25,506
Total Business-Type Activities	219,810	177,702	2,555			(39,553)	(39,553)
Total Primary Government	\$1,384,004	\$ 473,726	\$ 330,678	\$	(540,047)	(39,553)	(579,600)
General Revenues							
Property taxes					304,733	41,412	346,145
State-shared revenues					307,144		307,144
Unrestricted investment earnings					11,423	2,437	13,860
Franchise fees					8,740		8,740
Other					11,449	8,133	19,582
Transfers					(8,740)	8,740	
Total General Revenues and Transfers					634,749	60,722	695,471
Change in Net Assets					94,702	21,169	115,871
Net Assets – Beginning of year					1,647,579	679,249	2,326,828
Net Assets – End of year					\$ 1,742,281	\$ 700,418	\$ 2,442,699

The notes to the financial statements are an integral part of this statement.

VILLAGE OF LAURIUM, MICHIGAN

Balance Sheet Governmental Funds

February 28, 2005

	General	Major Street	Local Street	Municipal Street	Public Ordinance #114	Nonmajor Governmental Funds	Total
Assets							
Cash	\$ 284,119	\$ 6,813	\$ 5,016	\$ 288,652	\$ 297,722	\$ 148,431	\$ 1,030,753
Receivables (net):							
Current tax levy	19,116			9,333		1,789	30,238
Delinquent taxes	2,087			1,019		187	3,293
Accounts	13,693	263					13,956
Due from other funds	21,060	362		9,204		63	30,689
Due from other governmental units	55,251	134,210	43,961				233,422
Prepaid expense	9,055						9,055
Inventory				3,676			3,676
Advance to other fund					26,102		26,102
Total Assets	<u>\$ 404,381</u>	<u>\$ 141,648</u>	<u>\$ 48,977</u>	<u>\$ 311,884</u>	<u>\$ 323,824</u>	<u>\$ 150,470</u>	<u>\$ 1,381,184</u>
Liabilities and Fund Balances							
Liabilities							
Accounts payable	\$ 17,534	\$ 102	\$	\$	\$	\$ 100	\$ 17,736
Accrued liabilities	22,623	5,428	6,146				34,197
Due to other funds	2,438	14,680	11,493				28,611
Deferred revenues – taxes	21,204			10,352		1,975	33,531
Advance from other fund	26,102						26,102
Total Liabilities	<u>89,901</u>	<u>20,210</u>	<u>17,639</u>	<u>10,352</u>		<u>2,075</u>	<u>140,177</u>
Fund Balances							
Reserved for:							
Prepaid expenses	9,055						9,055
Streets & highways		121,438	31,338	297,856			450,632
Inventory				3,676			3,676
Loans & contingencies					323,824		323,824
Debt service						206	206
Unreserved (major funds)	305,425						305,425
Unreserved (nonmajor funds)							
Special revenue funds						148,189	148,189
Total Fund Balances	<u>314,480</u>	<u>121,438</u>	<u>31,338</u>	<u>301,532</u>	<u>323,824</u>	<u>148,395</u>	<u>1,241,007</u>
Total Liabilities and Fund Balances	<u>\$ 404,381</u>	<u>\$ 141,648</u>	<u>\$ 48,977</u>	<u>\$ 311,884</u>	<u>\$ 323,824</u>	<u>\$ 150,470</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds.	730,295
Taxes receivable are not available to pay for current year expenditures.	33,531
Bond issuance costs	4,000
Long-term liabilities are not due and payable in the current period and are not reported in the funds.	<u>(266,552)</u>

Net assets of governmental activities \$ 1,742,281

The notes to the financial statements are an integral part of this statement.

VILLAGE OF LAURIUM, MICHIGAN

**Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds**

Year ended February 28, 2005

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Municipal Street</u>	<u>Public Ordinance #114</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Revenues							
Taxes	\$ 183,695	\$	\$	\$ 104,366	\$	\$ 16,229	\$ 304,290
Licenses & permits	383						383
State-shared revenues & grants	307,144	238,082	90,041				635,267
Charges for services	53,587						53,587
Fines & forfeitures	3,270						3,270
Interest & rents	248,376	1,159	698	3,357	3,961	1,396	258,947
Other revenues	<u>94,213</u>					<u>3,840</u>	<u>98,053</u>
Total Revenues	<u>890,668</u>	<u>239,241</u>	<u>90,739</u>	<u>107,723</u>	<u>3,961</u>	<u>21,465</u>	<u>1,353,797</u>
Expenditures							
Current							
Legislative	6,295						6,295
General government	62,409	9,520	6,570	1,255	940	1,130	81,824
Public safety	227,155					3,638	230,793
Highways & streets		189,731	158,265				347,996
Public works	163,734						163,734
Parks & recreation	7,445						7,445
Other	361,693						361,693
Capital outlay	29,300					34,274	63,574
Debt service							
Principal						12,000	12,000
Interest	791					10,117	10,908
Bond issuance costs						<u>4,000</u>	<u>4,000</u>
Total Expenditures	<u>858,822</u>	<u>199,251</u>	<u>164,835</u>	<u>1,255</u>	<u>940</u>	<u>65,159</u>	<u>1,290,262</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>31,846</u>	<u>39,990</u>	<u>(74,096)</u>	<u>106,468</u>	<u>3,021</u>	<u>(43,694)</u>	<u>63,535</u>
Other Financing Sources (Uses)							
Bond proceeds						38,000	38,000
Transfers in		60,000	64,238			29,979	154,217
Transfers out	<u>(14,724)</u>	<u>(50,036)</u>	<u>(16,502)</u>	<u>(80,000)</u>		<u>(1,695)</u>	<u>(162,957)</u>
Total Other Financing Sources (Uses)	<u>(14,724)</u>	<u>9,964</u>	<u>47,736</u>	<u>(80,000)</u>		<u>66,284</u>	<u>29,260</u>
Net Change in Fund Balances	17,122	49,954	(26,360)	26,468	3,021	22,590	92,795
Fund Balances – Beginning of year	<u>297,358</u>	<u>71,484</u>	<u>57,698</u>	<u>275,064</u>	<u>320,803</u>	<u>125,805</u>	
Fund Balances – End of year	<u>\$ 314,480</u>	<u>\$ 121,438</u>	<u>\$ 31,338</u>	<u>\$ 301,532</u>	<u>\$ 323,824</u>	<u>\$ 148,395</u>	

VILLAGE OF LAURIUM, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balances (Continued) Governmental Funds

Year ended February 28, 2005

<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Municipal Street</u>	<u>Public Ordinance #114</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Amounts reported for governmental activities in the statement of activities are different because:						
Governmental funds report capital outlays as expenditures. However, in the statement of activities, these costs are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.						18,157
Revenues reported in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.						443
Repayments of debt principal and bond issuance costs are expenditures in the governmental funds, but not in the statement of activities.						16,000
Bond proceeds are not reported as financing sources on the statement of activities.						(38,000)
Change in accumulated employee vacation pay is recorded when earned in the statement of activities.						<u>5,307</u>
Change in Net Assets of Governmental Activities						<u>\$ 94,702</u>

The notes to the financial statements are an integral part of this statement.

VILLAGE OF LAURIUM, MICHIGAN**Statement of Net Assets
Proprietary Funds****February 28, 2005**

	Enterprise Funds			Total
	Multi-Recreation	Sanitation	Water	
Assets				
Current Assets:				
Cash	\$ 32,666	\$ 135,858	\$ 95,951	\$ 264,475
Receivables (net):				
Current tax levy		4,588		4,588
Delinquent taxes		500		500
Accounts	10,769	17,247	4,588	32,604
Due from other funds		420	1,023	1,443
Inventory	<u>944</u>	<u>71</u>		<u>1,015</u>
Total Current Assets	<u>44,379</u>	<u>158,684</u>	<u>101,562</u>	<u>304,625</u>
Noncurrent Assets:				
Capital assets, net	<u>164,986</u>	<u>91,538</u>	<u>167,982</u>	<u>424,506</u>
Total Assets	<u>209,365</u>	<u>250,222</u>	<u>269,544</u>	<u>729,131</u>
Liabilities				
Current Liabilities:				
Accounts payable	4,261	4,219	1,023	9,503
Accrued liabilities	1,122	1,122		2,244
Due to other funds	123	3,398		3,521
Deferred revenues:				
Taxes		5,088		5,088
Other		<u>8,357</u>		<u>8,357</u>
Total Current Liabilities	<u>5,506</u>	<u>22,184</u>	<u>1,023</u>	<u>28,713</u>
Net Assets				
Invested in capital assets, net of related debt	164,986	91,538	167,982	424,506
Unrestricted	<u>38,873</u>	<u>136,500</u>	<u>100,539</u>	<u>275,912</u>
Total Net Assets	<u>\$ 203,859</u>	<u>\$ 228,038</u>	<u>\$ 268,521</u>	<u>\$ 700,418</u>

The notes to the financial statements are an integral part of this statement.

VILLAGE OF LAURIUM, MICHIGAN

Statement of Revenues, Expenses and Changes in Net Assets Proprietary Funds

Year ended February 28, 2005

	Enterprise Funds			
	Multi-Recreation	Sanitation	Water	Total
Operating Revenues				
Property taxes	\$	\$ 41,412	\$	\$ 41,412
Charges for services	34,348	99,874	43,480	177,702
Other operating revenue	<u>7,629</u>	<u>504</u>		<u>8,133</u>
Total Operating Revenues	<u>41,977</u>	<u>141,790</u>	<u>43,480</u>	<u>227,247</u>
Operating Expenses				
Cost of sales	5,240		12,276	17,516
Wages & fringe benefits	7,103	40,808		47,911
Administration		7,791	995	8,786
Sanitation disposal	180	61,803		61,983
Utilities	20,173			20,173
Supplies & maintenance	1,666	20,147		21,813
Miscellaneous	381	3,138		3,519
Depreciation	<u>12,317</u>	<u>15,369</u>	<u>4,703</u>	<u>32,389</u>
Total Operating Expenses	<u>47,060</u>	<u>149,056</u>	<u>17,974</u>	<u>214,090</u>
Operating Income (Loss)	<u>(5,083)</u>	<u>(7,266)</u>	<u>25,506</u>	<u>13,157</u>
Nonoperating Revenues (Expenses)				
Special activities (net):				
Daniell Park activities	(118)			(118)
George Gipp Rec. Area activities	(4,234)			(4,234)
Sports activities	<u>(838)</u>			<u>(838)</u>
Total special activities	(5,190)			(5,190)
Contributions	2,555			2,555
Interest income	212	1,380	845	2,437
Other expense	<u>(530)</u>			<u>(530)</u>
Total Nonoperating Revenues (Expenses)	<u>(2,953)</u>	<u>1,380</u>	<u>845</u>	<u>(728)</u>
Income (Loss) Before Transfers	(8,036)	(5,886)	26,351	12,429
Transfers in	<u>8,740</u>			<u>8,740</u>
Change in Net Assets	704	(5,886)	26,351	21,169
Net Assets – Beginning of year, adjusted	<u>203,155</u>	<u>233,924</u>	<u>242,170</u>	<u>679,249</u>
Net Assets – End of year	<u>\$ 203,859</u>	<u>\$ 228,038</u>	<u>\$ 268,521</u>	<u>\$ 700,418</u>

The notes to the financial statements are an integral part of this financial statements.

VILLAGE OF LAURIUM, MICHIGAN

Statement of Cash Flows Proprietary Funds

Year ended February 28, 2005

	Enterprise Funds			
	Multi-Recreation	Sanitation	Water	Total
Cash Flows from Operating Activities				
Receipts from customers	\$ 38,804	\$ 139,878	\$ 42,128	\$ 220,810
Payments to suppliers	(27,123)	(125,250)	(12,247)	(164,620)
Payments to employees	<u>(7,160)</u>	<u>(4,910)</u>		<u>(12,070)</u>
Net cash provided by operating activities	<u>4,521</u>	<u>9,718</u>	<u>29,881</u>	<u>44,120</u>
Cash Flows from Noncapital Financing Activities				
Special activities	(2,857)			(2,857)
Contribution	2,555			2,555
Other expense	(530)			(530)
Transfer in from other funds	<u>8,740</u>			<u>8,740</u>
Net cash provided by noncapital financing activities	<u>7,908</u>			<u>7,908</u>
Cash Flows from Investing Activities				
Interest	<u>217</u>	<u>1,442</u>	<u>874</u>	<u>2,533</u>
Net increase in cash	12,646	11,160	30,755	54,561
Cash – Beginning of year	<u>20,020</u>	<u>124,698</u>	<u>65,196</u>	<u>209,914</u>
Cash – End of year	<u>\$ 32,666</u>	<u>\$ 135,858</u>	<u>\$ 95,951</u>	<u>\$ 264,475</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ (5,083)	\$ (7,266)	\$ 25,506	\$ 13,157
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	12,317	15,369	4,703	32,389
Changes in assets and liabilities:				
Receivables	(3,173)	(2,242)	(328)	(5,743)
Due from other funds		258	(1,023)	(765)
Inventory	397	504		901
Accounts payable	120	142	1,023	1,285
Accrued liabilities	(34)	29		(5)
Due to other funds	(23)	2,852		2,829
Deferred revenues		<u>72</u>		<u>72</u>
Net cash provided by operating activities	<u>\$ 4,521</u>	<u>\$ 9,718</u>	<u>\$ 29,881</u>	<u>\$ 44,120</u>

The notes to the financial statements are an integral part of this statement.

VILLAGE OF LAURIUM, MICHIGAN

Notes to Financial Statements

February 28, 2005

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Village of Laurium, Michigan (the “Village”) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Village:

Implementation of GASB Statement No. 34

The aspects of financial statement content and format, as prescribed by Governmental Accounting Standards Board (GASB) Statement No. 34 have been implemented in the financial statements, effective for the year ended February 28, 2005.

The primary changes from the prior years’ financial presentations include:

- The addition of a Management’s Discussion and Analysis as required supplementary information.
- A new format for the Village’s basic financial statements including a government-wide Statement of Net Assets and Statement of Activities, in addition to fund financial statements, with emphasis on major funds, for governmental and proprietary activities.
- The reporting of budget and actual information for the General Fund and each major special revenue fund in a new format as required supplementary information.
- Beginning net assets reported in government-wide financial statements will differ from the amounts reported as ending fund equity in the prior year financial statements due to this implementation.
- The change to the direct method of reporting cash flows from operations in the proprietary fund financial statements.

A. Financial Reporting Entity

The Village of Laurium, Michigan was incorporated in 1895. The Village is governed by an elected seven member council consisting of a president and six trustees. The Village provides services to its residents in many areas including law enforcement, fire protection, street maintenance, sanitation, recreation and community enrichment.

GASB Statement No. 14, *The Financial Reporting Entity*, as amended, contains the standards for defining the governmental financial reporting entity and for identifying which legally separate entities are component units that should be included with another government (usually a primary

VILLAGE OF LAURIUM, MICHIGAN

Notes to Financial Statements

February 28, 2005

government) in a financial reporting entity's financial statements. Requirements for including component units are based primarily on the concept of financial accountability. A primary government is financially accountable if it appoints a voting majority of the organization's governing body and (a) it is able to impose its will on that organization or (b) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. The Village has no component units.

Jointly Governed Organization – The Village, in conjunction with three other governmental entities, created the North Houghton County Water & Sewage Authority (the “Authority”) to provide wastewater collection, transmission and treatment. The Authority's board is comprised of seven members, two of which are from the Village. The Authority's board has control over its own budgeting and financing obligations. All of the financial operations of the Authority are recorded in the records of the Authority. It is expected that the revenues generated from the Authority system users will be adequate to operate the sewage system and pay back the related construction debt and interest of the Authority. Separately issued financial statements are available from the Authority.

See Note 10 for information pertaining to related organizations.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the Village. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and proprietary funds. The Village has no fiduciary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

VILLAGE OF LAURIUM, MICHIGAN

Notes to Financial Statements

February 28, 2005

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes, state-shared revenue and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

The Village reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Street Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on major streets.

The Local Street Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on local streets.

The Municipal Street Fund accounts for property taxes levied on Village residents that are restricted for use on major or local streets.

The Public Ordinance #114 Fund accounts for assets that are restricted by the Village. The assets in this fund can be used for emergencies or loaned to other funds for equipment purchases. This fund accounts for the activity of the former Sewer Fund.

VILLAGE OF LAURIUM, MICHIGAN

Notes to Financial Statements

February 28, 2005

The Village reports the following major proprietary funds:

The Multi-Recreation Fund accounts for the recreational activities of the Village. The main activities in this fund are the George Gipp Ice Arena and Complex and the Daniell Park concerts.

The Sanitation Fund accounts for the activities of the Village's garbage removal operations.

The Water Fund accounts for the activity of the leasing of the Village's water mains.

Additionally, the Village reports the following nonmajor governmental funds: Public Improvement, Fire Truck, Volunteer Firemen, Fire/Police Vehicle Purchase and Debt Service.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected to also follow private-sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Village's sanitation function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relate to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

When both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

VILLAGE OF LAURIUM, MICHIGAN

Notes to Financial Statements

February 28, 2005

D. Assets, Liabilities, and Net Assets or Equity

Bank Deposits – Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. For purposes of the statement of cash flows demand deposits and short-term investments with maturities of three months or less when acquired are considered to be cash equivalents. The Village did not have any short-term investments at February 28, 2005.

Receivables and Payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as “advances to/from other funds.” Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances.”

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each July 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on September 15th, at which time penalties and interest are assessed.

It is the Village’s policy to recognize revenue from the current tax levy in the current year when the proceeds of this levy are budgeted and made “available” for the financing of operations. “Available” means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

The 2004 taxable valuation of the Village totaled \$16,310,934, on which ad valorem taxes levied consisted of 10.6917 mills for operating purposes, 2.5659 mills for garbage removal, 4.2766 mills for street maintenance, .9436 mills for snow removal and 1.0000 mill for the purchase of fire apparatus. This resulted in \$174,446 for operating, \$41,861 for garbage removal, \$69,773 for street maintenance, \$15,391 for snow removal and \$16,312 for fire apparatus. These amounts are recognized in the respective General, Proprietary and Special Revenue Fund financial statements as taxes receivable – current or as tax revenue.

Inventories and Prepaid Items – Inventories are valued at lower of cost or market, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets – Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical

VILLAGE OF LAURIUM, MICHIGAN

Notes to Financial Statements

February 28, 2005

cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Prior to March 1, 2004, governmental funds' infrastructure assets were not capitalized. Infrastructure assets acquired since March 1, 2004 will be recorded at cost. However, no such assets were acquired from March 1, 2004 to February 28, 2005.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current year, no interest expense was capitalized as part of the cost of assets under construction.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Site Improvements	20 years
Water Lines	35 to 80 years
Infrastructure	15 to 30 years
Vehicles	5 to 25 years
Office Equipment	8 to 10 years
Computer Equipment	5 years
Office Furnishings	15 years

Compensated Absences (Vacation and Sick Leave) – It is the Village's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. There is no liability for unpaid accumulated sick leave since the government does not have a policy to pay any amounts when employees separate from service with the Village. All vacation pay is accrued when incurred in the government-wide financial statements. The estimated current portion of the liability for vacation leave attributable to the Village's governmental funds is not significant and therefore a current liability is not recognized. The amounts attributable to proprietary funds are charged to expense and a corresponding liability in the applicable fund. There is no limit on the number of days of vacation leave that an employee can accumulate.

Long-Term Obligations – In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Issuance costs are reported as debt service expenditures.

VILLAGE OF LAURIUM, MICHIGAN

Notes to Financial Statements

February 28, 2005

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 – Stewardship, Compliance and Accountability

Budgetary Information – Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund, function, department and line items. The legal level of budgetary control adopted by the governing body is the activity level. Encumbrance accounting is not employed in the governmental funds.

Excess of Expenditures over Appropriations in the Local Street Budgeted Funds – During the year, the Village incurred expenditures which were in excess of the amounts appropriated by \$6,935.

Note 3 – Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the local governmental unit to make deposits and invest in the accounts of federally insured banks, credit unions and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Village has designated five banks for the deposit of Village funds. The investment policy adopted by the board is in accordance with Public Act 196 of 1997. The Village's deposits and investment policy are in accordance with statutory authority.

VILLAGE OF LAURIUM, MICHIGAN

Notes to Financial Statements

February 28, 2005

At year-end, the Village's deposits were reported in the basic financial statements in the following categories (the Village has no investments):

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Cash and cash equivalents	<u>\$ 1,030,753</u>	<u>\$ 264,475</u>	<u>\$ 1,295,228</u>

The breakdown between deposits is as follows:

Bank deposits (checking and savings accounts)	\$ 1,294,403
Petty cash and cash on hand	<u>825</u>
Total	<u>\$ 1,295,228</u>

The bank balance of the Village's deposits is \$1,308,455, of which \$100,000 is covered by federal depository insurance and \$1,208,455 is collateralized with a Wisconsin Revenue Bond held by the pledging financial institution.

Note 4 – Capital Assets

Capital asset activity of the primary government for the current year was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities				
Capital assets not being depreciated:				
Land	<u>\$ 47,300</u>	<u>\$</u>	<u>\$</u>	<u>\$ 47,300</u>
Capital assets being depreciated:				
Buildings & site improvements	193,000			193,000
Machinery & equipment	907,583			907,583
Vehicles	<u>10,700</u>	<u>63,574</u>		<u>74,274</u>
Subtotal	<u>1,111,283</u>	<u>63,574</u>		<u>1,174,857</u>
Less accumulated depreciation:				
Building & site improvements	64,480	3,060		67,540
Machinery & equipment	377,347	35,209		412,556
Vehicles	<u>4,618</u>	<u>7,148</u>		<u>11,766</u>
Subtotal	<u>446,445</u>	<u>45,417</u>		<u>491,862</u>
Net capital assets being depreciated	<u>664,838</u>	<u>18,157</u>		<u>682,995</u>
Governmental activities net capital assets	<u>\$ 712,138</u>	<u>\$ 18,157</u>	<u>\$</u>	<u>\$ 730,295</u>

VILLAGE OF LAURIUM, MICHIGAN

Notes to Financial Statements

February 28, 2005

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities				
Capital assets not being depreciated:				
Land	\$ 5,500	\$	\$	\$ 5,500
Capital assets being depreciated:				
Buildings & site improvements	410,065			410,065
Water system	297,592			297,592
Machinery & equipment	<u>207,911</u>		<u>13,222</u>	<u>194,689</u>
Subtotal	<u>915,568</u>		<u>13,222</u>	<u>902,346</u>
Less accumulated depreciation:				
Building & site improvements	251,533	12,418		263,951
Water system	124,907	4,703		129,610
Machinery & equipment	<u>85,402</u>	<u>17,599</u>	<u>13,222</u>	<u>89,779</u>
Subtotal	<u>461,842</u>	<u>34,720</u>	<u>13,222</u>	<u>483,340</u>
Net capital assets being depreciated	<u>453,726</u>	<u>(34,720)</u>		<u>419,006</u>
Business-type activities net capital assets	<u>\$ 459,226</u>	<u>\$ (34,720)</u>	<u>\$</u>	<u>\$ 424,506</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental Activities	
General government	\$ 3,060
Public safety	16,143
Public works	<u>26,214</u>
Total governmental activities	<u>\$ 45,417</u>
Business-Type Activities	
Multi-Recreation	\$ 14,648
Sanitation	15,369
Water	<u>4,703</u>
Total business-type activities	<u>\$ 34,720</u>

VILLAGE OF LAURIUM, MICHIGAN

Notes to Financial Statements

February 28, 2005

Note 5 – Interfund Receivables, Payables and Transfers

The composition of interfund balances and transfers is as follows:

Interfund Balances

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Due To/From Other Funds		
General	Major Street	\$ 8,809
	Local Street	8,730
	Multi-Recreation	123
	Sanitation	3,398
Major Street	Local Street	362
Municipal Street	General	932
	Major Street	5,871
	Local Street	2,401
Fire Truck	General	63
Sanitation	General	420
Water	General	<u>1,023</u>
Total		<u>\$ 32,132</u>
Advances From/To Other Funds		
Public Ordinance #114	General	<u>\$ 26,102</u>

Interfund Transfers

	Transfers (Out)					
	General	Major Street	Local Street	Municipal Street	Non-Major Governmental	Total
Transfers In:						
Governmental Funds						
Major Street	\$	\$	\$	\$ 60,000	\$	\$ 60,000
Local Street		44,238		20,000		64,238
Non-Major Governmental Funds	<u>5,984</u>	<u>5,798</u>	<u>16,502</u>		<u>1,695</u>	<u>29,979</u>
Subtotal governmental funds	5,984	50,036	16,502	80,000	1,695	154,217
Business-type Activities						
Multi-Recreation	<u>8,740</u>					<u>8,740</u>
Total	\$ 14,724	\$ 50,036	\$ 16,502	\$ 80,000	\$ 1,695	\$ 162,957

VILLAGE OF LAURIUM, MICHIGAN

Notes to Financial Statements

February 28, 2005

Note 6 – Long-Term Debt

General obligation bonds and loans are direct obligations and pledge the full faith and credit of the Village. Contractual agreements and installment purchase agreements are also general obligations of the Village.

Bond and contractual activity can be summarized as follows:

	<u>Interest Rate</u>	<u>Principal Matures</u>	<u>Beginning Balance</u>	<u>Additions (Reductions)</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities						
General Obligations Bonds						
\$242,000 2001 Michigan						
Transportation Fund Bonds	4.75%	4-1-2016	\$ 219,000	\$ (12,000)	\$ 207,000	\$ 13,000
Loan – Fire/Police vehicles	4.38%	12-1-2019		38,000	38,000	9,000
Subtotal bond & loan obligations			219,000	26,000	245,000	22,000
Other Long-Term Obligations						
Compensated absences			26,859	(5,307)	21,852	
Total Governmental Activities			\$ 245,859	\$ 20,693	\$ 266,552	\$ 22,000

Annual debt service requirements to maturity for the above obligations are as follows:

<u>Year End February 28,</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2006	\$ 22,000	\$ 11,497
2007	24,000	10,485
2008	24,500	9,382
2009	23,500	8,257
2010	16,000	7,173
2011-2015	92,000	23,655
2016-2020	43,000	3,088
Total	\$ 245,000	\$ 73,537

During the current fiscal year the Village paid \$10,908 in interest expense. The entire amount was expensed.

VILLAGE OF LAURIUM, MICHIGAN

Notes to Financial Statements

February 28, 2005

Note 7 – Net Asset Adjustment

The beginning net assets in the Multi-Recreation and Water Funds were increased by \$3,500 and \$54,849, respectively. The Multi-Recreation Fund adjustment was the result of corrections made to the accounts payable balance. The Water Fund adjustment is the result of recording capital assets that were not recorded in the past.

Note 8 – Lease Agreement

The water line lease and operating agreement between the Village of Laurium, Michigan and Michigan-American Water Company is dated October 1, 1983. Annual rental is based on 12 ½% of the net revenue generated by Michigan-American Water Company from Village residents. This rental income is recorded in the Water Fund and amounts to \$31,204 for the year ended February 28, 2005.

Note 9 – Risk Management

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. All risk of loss is covered by commercial insurance. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 10 – Related Organizations

The Laurium Housing Commission is a related organization which is excluded from the financial reporting entity because the Village's accountability does not extend beyond making appointments. The Laurium Housing Commission provides low-rent housing for qualified individuals in accordance with the rules and regulations prescribed by the Department of Housing and Urban Development. The Village has no influence over the management, budget or policies of the Commission. The Commission reports independently and a copy of its audited financial statement is available from them.

The Village has established, as a legal separate organization, the Village of Laurium Hospital Finance Authority (the "Authority") to allow the Keweenaw Memorial Medical Center to obtain financing at a lower rate than it could without going through the Authority. The Authority is governed by a three person board who are appointed by the Village. The Village's accountability does not extend beyond this representation and making these appointments. The board adopts rules, policies and procedures deemed necessary for the conduct of its business.

VILLAGE OF LAURIUM, MICHIGAN

Notes to Financial Statements

February 28, 2005

Note 11 – Employee Retirement and Benefit Systems

Defined Benefit Pension Plan (Michigan Municipal Employees' Retirement System)

Plan Description – The Village participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan. All permanent employees of the Village are eligible to participate in the plan upon working at least 10 full work days in a given month. As of December 31, 2004, the most recent report available, the Village had 11 active covered employees, 2 vested former members and 15 retirees and beneficiaries. The annual covered payroll at that date totaled \$312,457 and the Village's total payroll for all employees was \$409,051. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 447 North Canal Street, Lansing, Michigan 48917-9755.

Funding Policy – The obligation to contribute to and maintain the system for these employees was established by negotiation with the Village's competitive bargaining units and requires no contribution from the employees and 15.97% and 11.59% of gross wages for general, and police/fire employees, respectively.

Annual Pension Costs – For the year ended February 28, 2005 the Village's annual pension cost of \$55,274 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2003, using the entry age normal cost method. Significant actuarial assumptions used include: (i) an 8% investment rate of return; (ii) projected salary increases of 4.5% plus a percentage based on an age-related scale to reflect merit, longevity and promotional pay increases per year; and (iii) 3 to 4% per year cost of living adjustments. Both determined using techniques that smooth the effect of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 30 years.

Three year trend information as of December 31 follows:

	<u>2002</u>	<u>2003</u>	<u>2004</u>
Annual Pension Cost	\$ 39,096	\$ 54,162	\$ 55,274
Percentage of APC Contributed	100%	100%	100%
Net Pension Obligation	0	0	0
Actuarial Value of Assets	754,440	815,433	869,290
Actual Accrued Liability	1,162,390	1,208,328	1,485,839
Unfunded AAL	407,950	392,895	616,549
Funded Ratio	65%	67%	59%
Covered Payroll	354,152	358,137	312,457
UAAL as a Percentage of Covered Payroll	115%	110%	197%

VILLAGE OF LAURIUM, MICHIGAN

Notes to Financial Statements

February 28, 2005

Note 12 – Deferred Compensation Plan

The Village offers all employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plans are held in trust, as described in IRC Section 457(g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof of the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the employer for purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement 32, plan balances and activities are not reflected in the Village's financial statements.

Note 13 – Subsequent Event

In May 2005 the Village received a \$161,870 loan and a \$65,130 grant from Rural Development for the purchase of a new fire truck.

Note 14 – Commitment and Contingencies

The Village receives Federal and State Grants for specific purposes that are subject to review and audit by Federal and State agencies. Such audits could result in a request for reimbursement by the Federal and State agencies for expenditures disallowed under the terms and conditions of the appropriate agency. In the opinion of the Village management, such disallowance, if any, will not be significant to the Village's financial statements.

Required Supplementary Information

VILLAGE OF LAURIUM, MICHIGAN

Budgetary Comparison Schedule General Fund Year ended February 28, 2005

	<u>Budgeted Amounts</u>			Variance With
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Final Budget</u>
Beginning Budgetary Fund Balance	\$ 258,485	\$ 297,358	\$ 297,358	\$
Resources (Inflows):				
Taxes	182,600	181,900	183,695	1,795
Licenses & permits	300	300	383	83
State aid	314,300	306,800	307,144	344
Charges for services	40,400	48,800	53,587	4,787
Fines & forfeitures	2,345	3,199	3,270	71
Interest & rents	203,400	245,640	248,376	2,736
Other revenue	<u>63,220</u>	<u>87,585</u>	<u>94,213</u>	<u>6,628</u>
Amounts Available for Appropriation	<u>1,065,050</u>	<u>1,171,582</u>	<u>1,188,026</u>	<u>16,444</u>
Charges to Appropriations (Outflows):				
Legislative	7,325	6,475	6,295	180
General government	66,000	70,550	62,409	8,141
Public safety	215,623	231,348	227,155	4,193
Public works	143,450	171,350	163,734	7,616
Parks & recreation	7,603	7,603	7,445	158
Other	350,997	365,187	361,693	3,494
Capital outlay		29,215	29,300	(85)
Debt service		900	791	109
Transfers to other funds	<u>14,900</u>	<u>14,724</u>	<u>14,724</u>	
Total Charges to Appropriations	<u>805,898</u>	<u>897,352</u>	<u>873,546</u>	<u>23,806</u>
Ending Budgetary Fund Balance	<u>\$ 259,152</u>	<u>\$ 274,230</u>	<u>\$ 314,480</u>	<u>\$ 40,250</u>

VILLAGE OF LAURIUM, MICHIGAN

**Budgetary Comparison Schedule
Major Street Fund
Year ended February 28, 2005**

	<u>Budgeted Amounts</u>			Variance With
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Final Budget</u>
Beginning Budgetary Fund Balance	\$ 34,840	\$ 71,484	\$ 71,484	\$
Resources (Inflows):				
State aid	179,200	218,400	238,082	19,682
Interest	700	1,300	1,159	(141)
Transfers from other funds	<u>40,000</u>	<u>60,000</u>	<u>60,000</u>	<u> </u>
Amounts Available for Appropriation	<u>254,740</u>	<u>351,184</u>	<u>370,725</u>	<u>19,541</u>
Charges to Appropriations (Outflows):				
General government	9,600	9,600	9,520	80
Highways & streets	183,100	207,025	189,731	17,294
Transfers to other funds	<u>40,212</u>	<u>50,398</u>	<u>50,036</u>	<u>362</u>
Total Charges to Appropriations	<u>232,912</u>	<u>267,023</u>	<u>249,287</u>	<u>17,736</u>
Ending Budgetary Fund Balance	<u>\$ 21,828</u>	<u>\$ 84,161</u>	<u>\$ 121,438</u>	<u>\$ 37,277</u>

VILLAGE OF LAURIUM, MICHIGAN

**Budgetary Comparison Schedule
Local Street Fund
Year ended February 28, 2005**

	<u>Budgeted Amounts</u>			<u>Variance With</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Final Budget</u>
Beginning Budgetary Fund Balance	\$ 50,211	\$ 57,698	\$ 57,698	\$
Resources (Inflows):				
State aid	99,000	90,400	90,041	(359)
Interest	300	800	698	(102)
Transfers from other funds	<u>93,000</u>	<u>84,600</u>	<u>64,238</u>	<u>(20,362)</u>
Amounts Available for Appropriation	<u>242,511</u>	<u>233,498</u>	<u>212,675</u>	<u>(20,823)</u>
Charges to Appropriations (Outflows):				
General government	6,500	6,700	6,570	130
Highways & streets	175,650	151,200	158,265	(7,065)
Transfers to other funds	<u>17,168</u>	<u>16,502</u>	<u>16,502</u>	<u> </u>
Total Charges to Appropriations	<u>199,318</u>	<u>174,402</u>	<u>181,337</u>	<u>(6,935)</u>
Ending Budgetary Bund Balance	<u>\$ 43,193</u>	<u>\$ 59,096</u>	<u>\$ 31,338</u>	<u>\$ (27,758)</u>

VILLAGE OF LAURIUM, MICHIGAN

**Budgetary Comparison Schedule
Municipal Street Fund
Year ended February 28, 2005**

	<u>Budgeted Amounts</u>			Variance With
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Final Budget</u>
Beginning Budgetary Fund Balance	\$ 275,370	\$ 275,064	\$ 275,064	\$
Resources (Inflows):				
Taxes	103,500	103,600	104,366	766
Interest	<u>1,000</u>	<u>3,600</u>	<u>3,357</u>	<u>(243)</u>
Amounts Available for Appropriation	<u>379,870</u>	<u>382,264</u>	<u>382,787</u>	<u>523</u>
Charges to Appropriations (Outflows):				
General government	1,300	1,300	1,255	45
Transfers to other funds	<u>80,000</u>	<u>100,000</u>	<u>80,000</u>	<u>20,000</u>
Total Charges to Appropriations	<u>81,300</u>	<u>101,300</u>	<u>81,255</u>	<u>20,045</u>
Ending Budgetary Fund Balance	<u>\$ 298,570</u>	<u>\$ 280,964</u>	<u>\$ 301,532</u>	<u>\$ 20,568</u>

VILLAGE OF LAURIUM, MICHIGAN

**Budgetary Comparison Schedule
Public Ordinance #114
Year ended February 28, 2005**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance With
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
Beginning Budgetary Fund Balance	\$ 320,914	\$ 320,803	\$ 320,803	\$
Resources (Inflows):				
Interest	<u>2,000</u>	<u>4,000</u>	<u>3,961</u>	<u>(39)</u>
Amounts Available for Appropriation	322,914	324,803	324,764	(39)
Charges to Appropriations (Outflows):				
General government	<u>(1,000)</u>	<u>(1,000)</u>	<u>(940)</u>	<u>60</u>
Ending Budgetary Fund Balance	<u>\$ 321,914</u>	<u>\$ 323,803</u>	<u>\$ 323,824</u>	<u>\$ 21</u>

Other Supplementary Information

VILLAGE OF LAURIUM, MICHIGAN

Combining Balance Sheet Nonmajor Governmental Funds February 28, 2005

	Special Revenue Funds				Total Special Revenue Funds	Debt Service Fund	Total Nonmajor Governmental Funds
	Public Improvement	Fire Truck	Volunteer Firemen	Fire/Police Vehicle Purchase			
Assets							
Cash	\$ 102,039	\$ 37,316	\$ 7,174	\$ 1,696	\$ 148,225	\$ 206	\$ 148,431
Receivables (net):							
Current tax levy		1,789			1,789		1,789
Delinquent taxes		187			187		187
Due from other funds		63			63		63
Total Assets	<u>\$ 102,039</u>	<u>\$ 39,355</u>	<u>\$ 7,174</u>	<u>\$ 1,696</u>	<u>\$ 150,264</u>	<u>\$ 206</u>	<u>\$ 150,470</u>
Liabilities and Fund Balances							
Liabilities							
Accounts payable	\$	\$	\$ 100	\$	\$ 100	\$	\$ 100
Deferred revenues – taxes		1,975			1,975		1,975
Total Liabilities		1,975	100		2,075		2,075
Fund Balances							
Reserved for debt service						206	206
Unreserved	102,039	37,380	7,074	1,696	148,189		148,189
Total Fund Balances	102,039	37,380	7,074	1,696	148,189	206	148,395
Total Liabilities and Fund Balances	<u>\$ 102,039</u>	<u>\$ 39,355</u>	<u>\$ 7,174</u>	<u>\$ 1,696</u>	<u>\$ 150,264</u>	<u>\$ 206</u>	<u>\$ 150,470</u>

VILLAGE OF LAURIUM, MICHIGAN

Combining Statement of Revenues, Expenditures and Changes in Fund Balances Nonmajor Governmental Funds Year ended February 28, 2005

	Special Revenue Funds				Total Special Revenue Funds	Debt Service Fund	Total Nonmajor Governmental Funds
	Public Improvement	Fire Truck	Volunteer Firemen	Fire/Police Vehicle Purchase			
Revenues							
Taxes	\$	\$ 16,229	\$	\$	\$ 16,229	\$	\$ 16,229
Interest	1,073	302	18		1,393	3	1,396
Other revenues			3,840		3,840		3,840
Total Revenues	1,073	16,531	3,858		21,462	3	21,465
Expenditures							
Current							
General government	830				830	300	1,130
Public safety			3,638		3,638		3,638
Capital outlay				34,274	34,274		34,274
Debt service							
Principal						12,000	12,000
Interest						10,117	10,117
Bond issuance costs				4,000	4,000		4,000
Total Expenditures	830		3,638	38,274	42,742	22,417	65,159
Excess (Deficiency) of Revenues over Expenditures	243	16,531	220	(38,274)	(21,280)	(22,414)	(43,694)
Other Financing Sources (Uses)							
Bond proceeds				38,000	38,000		38,000
Transfers in		5,709		1,970	7,679	22,300	29,979
Transfers out		(1,695)			(1,695)		(1,695)
Total Other Financing Sources (Uses)		4,014		39,970	43,984	22,300	66,284
Net Change in Fund Balances	243	20,545	220	1,696	22,704	(114)	22,590
Fund Balances — Beginning of year	101,796	16,835	6,854		125,485	320	125,805
Fund Balances — End of year	\$ 102,039	\$ 37,380	\$ 7,074	\$ 1,696	\$ 148,189	\$ 206	\$ 148,395

VILLAGE OF LAURIUM, MICHIGAN

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Village Council
Village of Laurium, Michigan

I have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Village of Laurium, Michigan, as of and for the year ended February 28, 2005, which collectively comprise the Village's basic financial statements and have issued my report thereon dated July 20, 2005. The report on the basic financial statements was qualified because the procedures used to collect cash receipts from sales and admissions at fund raising events, and the lack of evidential matter with respect to those cash receipts, did not permit me to apply auditing procedures to satisfy myself as to the reasonableness of such cash receipts stated in the accompanying financial statements. Except as discussed in the preceding sentence, I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing my audit, I considered the Village of Laurium, Michigan's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, I noted a certain matter involving the internal control over financial reporting and its operation that I consider to be a reportable condition, which is described below. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the Village of Laurium, Michigan's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Because of a limited number of available personnel, it is not always possible to adequately segregate certain incompatible duties so that no one employee has access to both physical assets and the related accounting records, or to all phases of a transaction. Consequently, the possibility exists that unintentional or intentional errors or irregularities could exist and not be promptly detected.

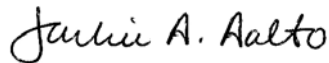
A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe that the reportable condition described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village of Laurium, Michigan's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, I noted certain matters that I reported to the management of the Village of Laurium, Michigan in a separate letter dated July 20, 2005

This report is intended solely for the information and use of the council membership, management, federal and state awarding agencies, and, if applicable, pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Jackie A. Aalto, CPA

Calumet, Michigan
July 20, 2005

July 20, 2005

To the Village Council
Village of Laurium, Michigan

In planning and performing my audit of the financial statements of the Village of Laurium, Michigan for the year ended February 28, 2005, I considered its internal control in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control. However, I noted a certain matter involving the internal control and its operation that I consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of internal control that, in my judgment, could adversely affect the Village of Laurium, Michigan's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

Reportable Condition

1. The size of the Village's accounting and administrative staff precludes certain internal controls that would be preferred if it were large enough to provide optimum segregation of duties. This dictates that the Village Council remain involved in the financial affairs of the Village to provide oversight and independent review functions. This includes:
 - a. The oversight of financial activities at the George Gipp Arena and Daniell Park.
 - b. The adoption of a conflict of interest policy.

Other Comments and Recommendations

2. P.A. 621 of 1978, Section 18(1) as amended, provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the 2/28/05 fiscal year, the Village incurred expenditures which were in excess of the amounts appropriated by \$6,935 in the Local Street Fund. It is recommended that the Village Council fully comply with all provisions of the Act.

These conditions were considered in determining the nature, timing, and extent of the audit tests applied in my audit of the February 28, 2005 financial statements, and this report does not affect my report on those financial statements dated July 20, 2005. I have not considered the internal control since the date of my report.

This report is intended solely for the information and use of the council membership, management, federal and state awarding agencies, and, if applicable, pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,



Jackie A. Aalto, CPA